

Committee on Resources

Witness Statement

*Oral Testimony on Compromising Our National Security
By Restricting Domestic Exploration & Development
Of Our Oil and Gas Resources*

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Washington, D. C.
Before the U.S. House of Representatives
Committee on Resources
Washington, D. C.
April 12, 2000

Thank you, Mr. Chairman, for the opportunity to express my views on the political and financial implications of our rising dependence on oil imports. I fear that these implications are lost on the American public generally but particularly on many of the policy makers in this country.

The general public's view of developments in the world oil market is very limited; it is limited to that little window on a gasoline pump at their favorite filling station. If the price per gallon is essentially unchanged since the last visit, then, what is the problem?

But if the price happens to be higher on each succeeding visit, then, what are the oil companies doing to us now?

The question of where the oil comes from is rarely, if ever, raised. Oil is oil, isn't it? What matters is the price at the pump. The consumer finds it easy to ignore any linkage between the price at the pump and where the crude oil refined to make that gasoline might have been produced.

Policy makers do understand that our increasing reliance on imported oil threatens our national security. Three findings to that effect have been made in the past 12 years. But, what to do about that increasing reliance? The answer from our government has been, "present policies suffice," or words to that effect. That is, yes, there is a problem but don't expect any actions on part of your government which might help alleviate the situation. I can take little comfort from that.

Just what are these present policies? It seems that our energy policy continues to be guided by two considerations: First, let the market place make the decisions. Second, U.S. companies are encouraged to search for oil outside the United States, but away from the Persian Gulf.

Do we let the market place make the decisions? Of course not. Governments everywhere, but especially the

United States, are reluctant to pass up any opportunity to take actions to influence oil and energy supply and demand, which in turn define price levels. With all good intentions, of course. But we have learned that this interference tends to prolong imbalances, rather than resolving them.

It has always seemed to me a bit incongruous that our government encourages the search for oil outside the United States. To take that posture means we have consigned ourselves to greater and greater dependence on foreign oil. It means that oil exploration budgets will be spent, but not in the United States. It means we have given up on ourselves, we have agreed to place our future well-being in the hands of nation-states whose national interests may not always coincide with ours.

There is always the hope, I suggest, that this search for oil will provide the world with an alternative to the Persian Gulf, viewed as an area of continuing instability but also where the bulk of the world oil reserves are to be found. Some thought, erroneously as it turned out, that such an alternative had at last been found, in the Caspian Sea of the former Soviet Union. But, reality has overcome hope. Yes, the region's potential is substantial but not at all comparable to the Gulf. At the same time, one might judge that the political risk encountered in the Caspian is at least the equal of that in the Gulf. Security of supply is no less assured.

Should we give up on ourselves? I think not. We all know of individuals who are described by their acquaintances as having a "great potential." Some live up to their potential, some do not, for whatever the reason.

Nations are much the same way. Having a recognized potential is not necessarily a guarantee of success. Nations--and individuals--must work to realize their potential. Perhaps the most disappointing are those who turn away from what might have been.

How can it be that the world's sole super-power finds it so easy to turn its back on its inheritance? But, it has.

What might happen if our government would reverse its energy policy and encourage the search for oil and gas in the United States? With our potential fully available for exploitation rather than locked away.

What will it take? Another oil embargo, like the one we endured in 1973-74? When our dependence on foreign oil to satisfy our thirst was just 35 percent, compared to the more than 50 percent today. Another embargo would be far more disruptive, far more debilitating, but it just might bring us to our senses.

Our energy policy is one-sided, and inward-looking. Should the world's sole super-power be put in a position where it literally has to travel, hat-in-hand, to exporting countries to ask for increases in supply to bring prices down? Where were we when prices had fallen to \$10 or less per barrel? We were rejoicing, because cheap oil helped fuel our economic growth. Did we care about the exporters, facing financial difficulties, because of the low prices? We did not, that was their problem, not ours.

When the exporters took collective action for the purpose of raising prices, success probably surprised them as much as it did us, for many in the West thought that once prices began to rise, cheating would set in and price increases would be constrained. Yes, there was cheating, although that word was not used. Instead, we monitored compliance to the agreed quotas. At the time of the March 2000 OPEC meeting, compliance was averaging around 75 percent, meaning that an additional 1.1 million barrels per day or so were being placed into the market outside the agreed quotas.

Nonetheless, oil prices roughly had tripled.

Now, these higher prices became a problem not just for consumers but for the exporters as well. How high is too high? Have these high prices stimulated production outside the exporters, have these high prices given renewed life to alternative forms of energy, have these high prices dampened demand for oil? How to bring about a "soft landing" for these prices?

The success of the oil exporting countries in cooperating to achieve higher oil prices is a lesson which is not being lost on the exporters, and I hope it is a lesson not lost on consumers as well. Success breeds imitation, so it is said. If so, what next might await us?

The United States is considered vulnerable because of our high and steadily rising dependence on foreign oil. At the same time, the oil exporters have a vulnerability of their own, and that is a dominating dependence on oil-derived revenues to fund their way of life. Few have diversified economies which might protect themselves during those times of low oil prices. Few have even tried to diversify. The scent of oil money is intoxicating, and for many their oil riches have proven both a curse and a blessing.

Oil is their strength and their weakness, and we should not be surprised when oil is used to express that strength or to overcome that weakness.

Mr. Chairman, whenever an oil crisis appears, we reach for the shelf entitled "Project Independence" and dust off the remedies of opening up prospective lands, now denied, for exploration. We take a second look at alternative forms of energy, and we once again discuss the need to become more efficient in our use of oil. But then the crisis passes, as this one will, and these remedies are returned to the shelf, to once again gather dust, to be revisited upon the occasion of the next crisis, which will surely appear, although in what form I cannot say.

Mr. Chairman, when will we ever learn to act, instead of reacting?

Mr. Chairman, that concludes my oral statement and I look forward to any questions you may have. With your permission, I ask that this oral statement be submitted for the record.

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